

Myth busters and straight forward Q&As on Bridging/short term finance

Bridging loans, what are they?

A bridging loan is basically a short-term mortgage. We provide an overview on our website at: <https://www.wpfinanceme.com/information/mortgages/b/>

When might you use a bridging loan?

When the money is needed for a limited period say, 12 months or less, you may not be eligible for a mortgage yet and you need to bridge the gap, the property is unmortgageable and needs to be brought up to spec, your mortgage chain breaks down, and so on.

How does bridging work?

You borrow a sum of money for a number of months rather than years, usually secured on a property, arrange to sell the property or re-finance it with a more traditional mortgage, and you pay the lender back.

How much can you borrow?

Depends on the lender and the case, we offer loans from £26,0000. Many lenders may have a minimum loan of £100K so less than that and your choices are limited. Lenders will usually lend around 60-70% of the purchase price, some may go a bit higher.

Can you borrow 100% of the purchase price?

Yes, with additional security

Can you borrow additional funds to cover refurb or development costs?

Yes, this is possible with additional security or you could arrange an additional loan facility based on the nature of the works, improvement to the property increasing its value, which may allow additional borrowing.

What are the lending rates?

They start around 0.4% per month for loan to values of 50% or less. The rates will increase if the loan to value is higher, if the property and/or the proposition is more complex, and lender believes their risks are therefore greater. You may be able to borrow up to 75% of the purchase price and could pay rates from around 0.6% to 1.25%+ per month.

What fees might you have to pay?

Lenders arrangement fees usually, 1-2% of the loan, lenders legal costs, valuation cost, broker fees. There may be other fees, e.g. admin, insurance, money transfer, and some lenders impose exit fees.

Can you add these fees to the loan?

Yes, as long as this does not exceed the agreed loan to value

How is the interest calculated and paid?

Interest can be paid monthly like a traditional mortgage and is referred to as "serviced interest". Alternatively, you can elect for some or all of the interest to be paid on redemption of the loan. In this case, the lender may calculate the amount of interest due over the term of the loan, retain this amount from loan being offered, and use this to meet the normal monthly interest payments, this is referred to as "retained and/or rolled interest"

Can first time buyers obtain short term (bridging) loans?

Yes, as long as the reasons are valid, and you meet the lenders criteria.

Is there a minimum income requirement?

No, but it will depend on the type of arrangement you are looking for.

Do you need a clean credit record?

No, but like a typical mortgage, the lender will carry out checks to satisfy themselves you can meet your obligations and repay the loan on time.

Can you pay the loan back early?

Yes.

Will you incur early redemption penalties if you pay back early?

No, not usually, you may have agreed to an exit fee at the beginning, but this is not an early redemption penalty.

Is it easier to get a bridging loan than a mortgage?

No, a bridging loan is a mortgage, the lending risks are still there, and in some cases, even greater for the lender.

Are bridging faster to arrange than a traditional mortgage

They can be, if you have the right team around you and you deal with the lenders and legal requests promptly.

Should you always buy investment property in a Ltd Co.?

No, not before taking advice from a qualified professional, an accountant with the appropriate qualifications or tax adviser. You should consider your short, medium and long term needs and corporate structure should not be undertaken without the correct advice. We do not provide tax advice.

Do you have to use a broker to get a bridging loan?

No, you can go direct to some lenders, many will ask you to go through a broker though.

How should you choose your broker?

Make sure they understand bridging. Most bridging loans are unregulated which means you are not afforded the protection of the Financial Conduct Authority. If the broker you chose does not have necessary permissions, they will not be able to advise on any regulated activity. As regulated advisers, we can deal with regulated and unregulated bridging loans. We can offer the standard (non-advised) broking service or bespoke advice service. Details are available on request.

Valuations:

Does the property need to be professionally valued?

Yes, like a typical mortgage, the lender will instruct the valuation and you will normally pay the valuer direct. The report will be sent to the lender.

Will all lenders lend against the value if you buy below market value?

A valuation instructed by a lender may record an open market value (OMV) a 180-day value, a 90-day value or a vacant possession value. The lender may offer against the OMV, the purchase price or one of the other values achieved.

If you are refurbishing a property, will the lenders lend against the future value?

No, they may offer a facility based on the future value, but the loan is granted on the actual value as further funds are requested. If you have increased the value of the property and this is verified by a re-value, then additional borrowing is possible.

If I change the property to an HMO, will I get an increased commercial value?

No, not necessarily, there could be other factors involved, you need to take professional advice usually from local valuers who know the area and the market.

Is Covid-19 going to affect valuations?

Almost certainly, but I don't know if anyone can answer this question properly yet, that will no doubt change in the coming weeks and months.

If you disagree with the valuation what can you do?

You can appeal to the lender/valuer but your chances of getting the decision overturned or, the valuer to admit they may be wrong, unlikely. You would need to provide irrefutable evidence of the contrary, if you can, they may review their decision.

Solicitors.

Do you need a solicitor?

Yes, and they must understand bridging, don't assume standard mortgage conveyancers all understand bridging, they don't, and because of this the deal may fall over if you have chosen the wrong representation. Check they are acceptable to the lender before you instruct.

Can we recommend solicitors?

We don't recommend but we can put you in touch with lawyers we have worked with in the past or those referred to us by our clients. In some cases, you may be able to use the lenders lawyers, referred to as dual representation, this can sometimes speed up the process.